ORGANIC LAW ON BUDGETARY STABILITY AND FINANCIAL SUSTAINABILITY OF PUBLIC ADMINISTRATIONS
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OBJECTIVES OF THE LAW

- Implements Article 135 of the Spanish Constitution
- Guarantees budgetary sustainability of all public admins
- Boosts confidence in the stability of the Spanish economy
- Strengthens Spain's commitment to the EU by incorporating EU regulation requirements and allowing these to be continually and automatically adapted

Budgetary stability and sustainability are essential for economic growth and job creation
Budgetary sustainability will be the guiding principle behind the actions of all public administrations.
THREE FISCAL RULES

- New preventive and corrective mechanisms
- Clear, simple rules
IMPLEMENTATION OF THE PRINCIPLE OF BUDGETARY STABILITY

All public administrations → Structural balance or surplus

Exceptional circumstances:
- Natural disaster
- Serious economic recession
- State of emergency

The Law allows 2 exceptions:

Structural reform with positive long-term budgetary impact → 0.4% Maximum structural deficit

STATE, AUT. REGIONS
Structural deficit + rebalancing plan

MTOs for Spain are stiffer than the EU minimum
IMPLEMENTATION OF THE FINANCIAL SUSTAINABILITY PRINCIPLE

- Volume of EDP Public debt < 60% or EU target

Interest and public debt payments have priority over any other expenditure
EXPENDITURE RULE

Computable expenditure variation <

Medium-term GDP growth reference rate
(To be determined according to EC methodology and published in the economic situation report)

All public administrations (including regional govts.) must approve an expenditure ceiling in keeping with the stability target and the expenditure rule
Before 1 April
Ministry of the Treasury and PAs proposes stability and public debt targets

15 days
CPFF and CNAL report

Council of Ministers agreement
Sets stability and public debt targets
Includes state budget expenditure ceiling
Includes the Ministry of the Economy and Competitiveness economic situation assessment
Contains the expenditure rule

Congress and Senate

All public administrations must factor stability and debt targets and expenditure rules into their budgets

PROCESS TO SET REGIONAL AND LOCAL AUTHORITY TARGETS
PROCESS TO SET INDIVIDUAL REGION'S TARGETS.

Ministry of the Treasury and Public Administrations

Proposes budgetary stability and public debt targets for each region

CPFF report 15 days

Council of Ministers agreement

Budgetary stability and public debt targets set for each region
Regional and local authority budgeting

**Second Semester**

- **Before 1 August**
  - Regional govts. submit their approved expenditure ceiling to CPFF

- **Before 1 October**
  - Regional govts. and Local authorities send their basic budgetary framework to Ministry of the Treasury and Public Administrations

- **Before 15 October**
  - Ministry of the Treasury and Public Administrations decides whether budgets comply with stability, debt and expenditure rule targets for following year's budget
    - Possible recommendations
    - Publication

- **October, November and December**
  - Approval of regional and local government budgetary projects
  - Approval of budgets
  - Assemblies and Plenary sessions
TARGET AND EFP COMPLIANCE OVERSIGHT

FOLLOWING YEAR

Before 1 April
MT and PAs issue report on targets and expenditure rules met in initial budgets
Publication

Before 1 October
MT and PAs issue report on targets met during previous year and extent of compliance to date
Publication

REPORT TO CPFF AND CNAL
Publication

Regional govts. Monthly oversight of budgetary spending

Regional govts. Economic and financial plan quarterly oversight.
Local Auths. Six monthly oversight
NEW PREVENTIVE AND CORRECTIVE MECHANISMS

Preventive mechanisms

Automatic preventive measures
Non-compliance risk warning

Corrective and enforcement mechanisms

Automatic corrective measures
Economic and financial plans
Enforcement measures and enforced compliance measures
AUTOMATIC PREVENTIVE MEASURES

**CAUSE:** Deviation during budget implementation

**CONSEQUENCES:** Adjust public spending to guarantee compliance by the end of the year

**CAUSE:** 95% of debt ceiling breached

**CONSEQUENCES:** Only cash operations

**CAUSE:** Long-term deficit forecast for the pensions system

**CONSEQUENCES:** The sustainability factor will be automatically applied
PREVENTIVE MECHANISMS

WARNING ISSUED

**CAUSE:** Risk of non-compliance  
**WHEN:** At any time  
**SPONSOR:** MT and PAs  
**COMPETENT AUTHORITY:** Central government  
Notifies CPFF and CNAL  
**PUBLICATION**

Administration adopts measures with risk of non-compliance  

**CORRECTIVE MEASURES**

- Authorisation of all Regional govt. borrowing (only long-term if EFP is submitted) and long-term Local auth. operations
- Preliminary report on agreements and subsidies
- Economic financial plan
- Approve non-availability agreement within 15 days
- Possible exercise of regulatory authority on taxes granted by central government
CORRECTIVE MECHANISMS

ECONOMIC-FINANCIAL PLAN

**CAUSE:** targets not met

**WHEN:** 1 April for initial budget and 1 October for liquidation

One year to meet targets

**PUBLICATION**

**PREPARATION DEADLINE:** One month from date of non-compliance

**APPROVAL DEADLINE:** two months

**IMPLEMENTATION:** three months

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Regional govs.
CPFF verifies suitability
Request New Plan
Submitted by MT and APs or Regional govs. for approval and oversight
Full Approval
Approval
MT and APs quarterly oversight
Non-presentation, or insufficient
Requirements from MT and PAs
Enforcement measures

REBALANCING PLAN

**CAUSE:** structural deficit incurred

**CASES:** Recession, natural disaster or state of emergency

Same EFP procedure
CORRECTIVE MECHANISMS

AUTOMATIC CONTROL MEASURES IN THE EVENT OF NON-COMPLIANCE WITH TARGETS

WHEN:
- Initial budget: 1 April
- Budget settled: 1 October

- Authorisation all debt operations (*long-term only following EFP approval*)
- Preliminary report from MT and APs for any subsidy or agreements (*applicable in the case of warning*)
ENFORCEMENT MEASURES

- 15 day adoption non-availability agreement
- Possible exercise of regulatory authority on taxes granted by central government
- Interest bearing deposits in Bank of Spain → 0.2% GDP
  - No interest if measures not implemented in 3 months
  - Becomes a fine if still not implemented after 3 months.
  - Procedure: Government Agreement
- If non-availability agreement is not adopted or insufficient measures: expert delegation is dispatched
  - Procedure: Government agreement
  - Submit proposals and conclusions: One week
  - No borrowing or financial mechanisms

CAUSES:
- No EFP submitted
- Not approved
- Non-compliance EFP
- Also adjustment plans

EU fines are transferred to administration responsible
- When: if Spain receives an EU sanction
ENFORCED COMPLIANCE MECHANISMS

Autonomous Regions
- Government issues order to President of Autonomous Region (Art. 155 of Spanish Constitution).
- Order not followed: government, with Senate absolute majority: enforced implementation.
- Government issues instructions to regional authorities.

Local Auths.
- Order from the Government or competent Regional Govt. to the President of the local authority.
- Order not followed: central or regional govt: enforced implementation.
- Local auth. persists: local authority dissolved.

CAUSES:
- NO AGREEMENT REACHED
- NO AVAILABILITY
- NO DEPOSIT MADE
- EXPERTS' MEASURES NOT ADOPTED
GROUND FOR APPLYING ENFORCEMENT MEASURES

TARGETS NOT MET

- EFP APPROVAL
- NOT SUBMITTED, OR INSUFFICIENT

RISK OF NON-COMPLIANCE

- WARNING ISSUED
- MEASURES NOT ADOPTED WITHIN ONE MONTH

EXTRAORDINARY FUNDING MEASURES

- ADJUSTMENT PLAN
- NOT SUBMITTED, OR INSUFFICIENT

ENFORCEMENT MEASURES

- DEVIATION DURING OVERSIGHT 2 QUARTERS
- EFP NON-COMPLIANCE

EFP
TRANSPARENCY: INFORMATION REG. GOVTS AND LOCAL AUTHS.

GENERAL PRINCIPLES

- Budgets and accounts will include full disclosure
- Public administrations to supply all information needed to ensure compliance with the Law
- Institutional loyalty in the exchange of information

INFORMATION TO SEND

- Budgets to include information for calculating the balance in ESA terms
- Basic budgetary framework
- Budgetary projects
- QUARTERLY: Local authorities income and expenditure settlements
- MONTHLY: Regional govts. income and expenditure settlements
- Order of the Ministry of the Treasury and PAs, subject to report by CPFF and CNAL

CENTRAL DATA BASE

- Ministry of the Treasury and PAs maintenance
- Information on the economic and financial activity of Administrations
- Order of the Ministry of the Treasury and PAs, subject to report by CPFF and CNAL
ECONOMIC AND FINANCIAL PLANS

- Grounds for deviation
- Future trends
- Measures
- Economic and budgetary variables
- Sensitivity analysis
- In the event of EDP: Any additional information

REBALANCING PLANS

- Additionally: pathway to return to balance, public debt and analysis of its half-life

PLAN OVERSIGHT

- Ministry of the Treasury and PAs will require information for quarterly oversight
- Regional govt. ICO line maturities.
- Regional govt. and Local auth. supplier payment plan
- Funding System Advance Payments 2010
- Extension 2008-2009 Funding System refunds, to 60 and 120 months

**Requirement:** Adjustment Plan
ADJUSTMENT PLAN

Features:

- Public
- Extraordinary adjustment measures
- Guarantees compliance with stability targets
- Additional information requirements
- Special oversight system:
  - Comptroller report and IGAE control measures
- Failure to submit, negative assessment or non-compliance
- Non-compliance: release of financial support
The Law will enter into force the day after it is published in the BOE.

The 60% public debt and structural limits must be met by 2020.

In 2015 and 2018 established deficit reduction and debt pathways will be revised to ensure compliance with 2020 targets.

Economic and financial and rebalancing plans submitted by Regional govts. and targets set for 2012 will be governed by the new Law.